



August 5, 2004

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, Massachusetts 02110

Re: The Berkshire Gas Company, D.T.E. 02-19

Dear Secretary Cottrell:

On April 5, 2002, The Berkshire Gas Company ("Berkshire" or the "Company") submitted a Gas Portfolio Optimization Agreement ("Optimization Agreement") dated as of March 25, 2002 and a Gas Sales and Purchase Agreement ("Purchase Agreement") dated as of March 25, 2002 each with BP Energy Company ("BP") to the Department for approval pursuant to G.L. c. 164, §§76 and 94A. In an Order dated September 30, 2002, the Department approved the Optimization Agreement and Purchase Agreement subject to the condition that Berkshire provide a report at the end of each year of the two year term of the agreements. In that Order, the Department directed the Company to "submit to the Department annual reports detailing any refinements to the allocation methodology . . . , including the savings dollars accruing to the Company . . . and a summary of the BP transactions on behalf of the Company." The annual report was to also highlight any "problems that may have arisen during implementation of the Agreement." The initial year of the term of the Optimization Agreement and the Purchase Agreement ended on March 31, 2003. The final year of the term of the Optimization Agreement and the Purchase Agreement ended on March 31, 2004. Berkshire is pleased to be able to provide its second annual report addressing the requirements of the September 30, 2002 decision. As demonstrated in Attachment A, the level of savings achieved in the second year pursuant to the Optimization Agreement was slightly less than the savings achieved during the first year of this agreement but greater than the savings achieved during the initial one year term of similar agreements approved in D.T.E. 01-41.

Optimization Savings

Total monthly optimization savings are identified and validated by performing a detailed monthly cash flow reconciliation for each month. This reconciliation is performed by each LDC, including Berkshire. Further, an Allocation Team randomly selects a period

The Berkshire Gas Company
115 Cheshire Road, P.O. Box 1388, Pittsfield, Massachusetts 01202-1388
Telephone: (413) 442-1511 www.berkshiregas.com


An Energy East Company

during the year to validate the specific transactions in each of the categories of optimization transaction. Additionally, on a quarterly basis, BP makes actual optimization payments to each LDC based on participating share. Finally, at the end of the year, the LDCs finalize the allocations for the 12 months ended March 31. At that time, the LDCs will exchange funds to reconcile or "true up" based upon actual, verified allocations.

Attachment A, page 2 provides the quarterly savings generated for Berkshire and the method of allocation used to establish the savings. This attachment demonstrates that the optimization dollars earned by Berkshire for the second year pursuant to the Optimization Agreement were slightly less than the first year of this agreement but greater than the optimization dollars earned in its previous Optimization Agreement. However, the Company believes that the results for this past year were impressive given the fact that the largest potential optimization quarter in any given year, January through March, provided limited optimization opportunities due to extreme cold weather conditions, including particularly extreme conditions on January 15, 2004.

The Company has made two appropriate adjustments to the level of "gross" savings from alliance transactions properly allocated to Berkshire, both of which are reflected in Attachment A, page 1. First, the Company reflected the payments properly due to BP pursuant to Article IV of the Optimization Agreement. Specifically, the "BP Energy Savings" were determined consistent with Section 4.3 of the Portfolio Agreement. Second, as in last year's annual report, the Company "netted" savings against only certain external legal costs necessary to secure the benefits of the alliance. These costs were associated with the procurement, negotiation and presentation of the alliance structure to the Department. These external costs were necessary to achieve the alliance benefits and the Company has allocated them equally to each year of the two-year term of the alliance. Importantly, consistent with the Company's representation during the Department's review, the Company has not sought the recovery of charges from affiliates associated with the alliance. Further, no procurement-related costs associated with the alliance are reflected in the Company's base rates.

Berkshire is pleased to report that the alliance resulted in significant cost savings beyond that which might be obtained from the Company's approved supply contracts. In addition, as noted by the Company in the case of D.T.E. 02-19, the alliance contributed to an overall resource planning strategy, providing more substantial benefits in volatile market conditions experienced during the initial year of the alliance term. Berkshire's customers will continue to enjoy the substantial benefits of the alliance structure while only bearing a portion of external costs associated with implementing the alliance.

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
August 5, 2004
Page 3

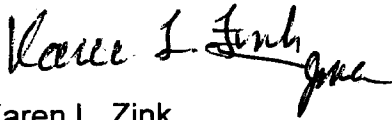
Implementation

The Company is pleased to report that the implementation of the Agreement has gone smoothly and expects the positive, enhanced working relationship to continue throughout the three-year term of the third Optimization Agreement which is now before the Department in D.T.E. 04-47.

The Company respectfully requests that, for all the reasons stated in the Motion for Confidential Treatment dated April 5, 2002, the report on savings be accorded confidential treatment in that it discloses optimization strategies pursued by the Company. Accordingly, the report is only provided to the Department staff and the Attorney General.

As always, should you have any questions, do not hesitate to contact me. Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Karen L. Zink", with a stylized flourish at the end.

Karen L. Zink
President, Chief Operating Officer
and Treasurer

Attachment

cc: Service List D.T.E. 02-19 and D.T.E. 04-47

#1291910 v13 - averyjm - _%#03!.doc - 70652/28